

REGULATORY AUTHORITY
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BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

August 8, 2001
EXECUTIVE SECRETARY

IN RE:

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) Docket No. 01-00591

NOTICE OF FILING BY THE ENERGY AND WATER DIVISION OF THE
TENNESSEE REGULATORY AUTHORITY

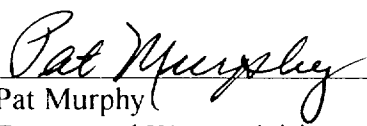
Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority (the "Energy and Water Division") hereby gives notice of its filing of the Chattanooga Gas Company WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Chattanooga Gas Company (the "Company").
2. The Company's WNA filings were received on November 1, 2000, through April 30, 2001, and the Staff completed its audit of same on July 20, 2001.
3. On July 23, 2001, the Energy and Water Division issued its preliminary WNA audit findings to the Company, and on August 6, 2001, the Company responded thereto.
4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report

contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:



Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 8th day of August, 2001, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

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Pat Murphy

COMPLIANCE AUDIT REPORT

OF

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 01-00591

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

AUGUST 2001

EXHIBIT A

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 01-00591

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COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment (WNA) Rider of Chattanooga Gas Company (hereafter "Chattanooga Gas" or the "Company"). The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers' bills appropriately between November 1, 2000 and April 30, 2001. As a result of the WNA Rider, the Company refunded \$45,684 and \$81,769 to the residential and commercial customers respectively during the period. The impact of the WNA revenues on the Company's total revenues is detailed in Section V.

The Staff's audit results show an **under-collection** from the Company's customers of **\$66,159**. The under-collection resulted from two (2) findings, which are described in Section VI. The effect of these findings is to reduce the Company's refund by \$19,685 for the residential and \$46,474 for the commercial customers. The Company has proposed to recover this amount through its annual Actual Cost Adjustment (ACA) filing. Staff concurs that this is an acceptable method.

While not material with respect to its total revenues, the dollar amount of these findings is significant compared to the Company's actual WNA results for the period. There appears to be an internal control problem as noted in Findings #1 and #3. We recommend that the Company address this problem prior to the beginning of the next heating season. Therefore, we conclude that, except for the findings described in Section VI and contingent on the Company addressing its internal control problem, Chattanooga Gas is correctly implementing the mechanics of the WNA Rider as specified by the TRA and included in the Company's tariff. (See Attachment 1)

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis: 1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration (NOAA) actual heating degree days; 2) the Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and 3) the Company's calculation of the WNA factor to Staff's calculation. The Staff also audited a sample of customers' bills during the WNA period to verify that the WNA factor had been correctly applied to the bills.

Pat Murphy and Butch Phillips of the Energy and Water Division conducted this audit.

III. BACKGROUND INFORMATION ON CHATTANOOGA GAS COMPANY

Chattanooga Gas Company (CGC), with its headquarters at 6125 Preservation Drive, Chattanooga, Tennessee, is a wholly owned subsidiary of Atlanta Gas & Light Company, which has its headquarters at 235 Peachtree Street, Atlanta, Georgia. CGC is a gas distributor, which provides service to the cities of Chattanooga and Cleveland and surrounding environs in Hamilton and Bradley counties, all located in Southeast Tennessee. The natural gas used to serve these areas is either purchased from or transported by East Tennessee Natural Gas and Southern Natural Gas. The purchases are made in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission, while the transportation is for gas purchased on the spot market.

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

In its September 26, 1991 Order in Docket 91-01712, the Tennessee Regulatory Authority (hereafter "TRA" or the "Authority"), formerly the Tennessee Public Service Commission, approved a three year experimental Weather Normalization Adjustment (WNA) Rider to be applied to residential and commercial customers' bills during the months of October through May of each year (See Attachment 1). In its June 21, 1994 order, the TRA adopted the WNA Rider as a permanent rule, to be applied November through April of each year for Chattanooga Gas Company.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

However, normal weather rarely occurs. This has two impacts:

- 1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and
- 2) The gas companies earn more or less than their authorized rate of return.
For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

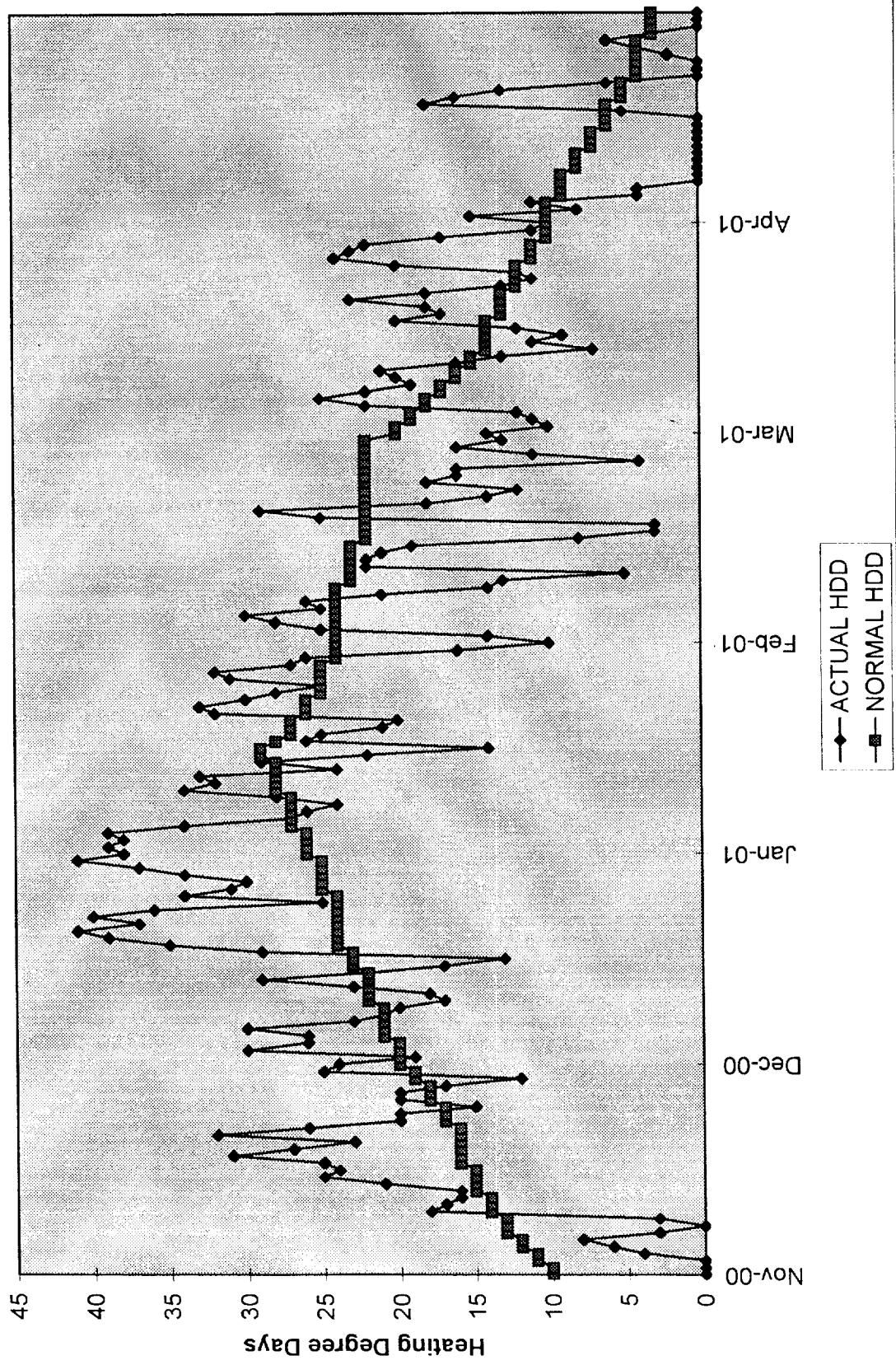
In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than

normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

The following graph is a comparison of actual heating degree days to normal heating degree days for Chattanooga Gas during the 2000 - 2001 heating season.

Chattanooga Gas Company

Comparison of Actual to Normal Heating Degree Days



V. IMPACT OF THE WNA RIDER

The net impact of the WNA Rider during the November 1, 2000 through April 30, 2001 period was that residential and commercial customers were **refunded** \$45,684 and \$81,769 respectively. This equates to a decrease in revenues from residential and commercial sales of 0.12% and 0.24% respectively. (See Table 1) This is a decrease from the previous year when the residential and commercial customers were **surcharged** \$1,463,046 and \$1,315,218 respectively (See Table 2).

Table 1

Impact of WNA Rider on Residential & Commercial Revenues November 1, 2000 - April 30, 2001

	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider on Revenues</u>
Residential Sales	\$ -45,684	\$ 38,214,755	-0.12%
Commercial Sales	<u>-81,769</u>	<u>34,763,799</u>	-0.24%
Total	\$ -127,453	\$ 72,978,554	-0.17%

Table 2

Amount Surcharged (Refunded) 1998 - 2001

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/Refund</u>
11/98-4/99	\$ 1,348,285	\$ 1,179,083	\$ 2,527,368
11/99-4/00	1,463,046	1,315,218	2,778,264
11/00-4/01	<u>-45,684</u>	<u>-81,769</u>	<u>-127,453</u>
Total	\$ 2,765,647	\$ 2,412,532	\$ 5,178,179

VI. WNA FINDINGS AND RECOMMENDATIONS

The Staff's audit results showed a net **under-collection** from CGC's ratepayers in the amount of **\$66,159**. The chart below shows the under-collection broken down by customer class each month.

Month	Residential	Multi-Family	Commercial	Total
November 2000	\$ 6,047	\$ -8	\$ 39,366	\$ 45,405
December 2000	-8,382	27	-9,129	-17,484
January 2001	5,777	-17	5,692	11,452
February 2001	-654	-9	-1,658	-2,321
March 2001	5,971	-9	6,288	12,250
April 2001	<u>10,942</u>	<u>0</u>	<u>5,915</u>	<u>16,857</u>
Total	\$ 19,701	\$ -16	\$ 46,474	<u>\$ 66,159</u>

This under-recovery resulted from findings, which are detailed below.

FINDING #1	Delay in Implementing WNA Adjustment	\$ 67,667	Under-recovery
FINDING #2	Inaccurate Actual Heating Degree Days	6,308	Over-recovery
FINDING #3	Inaccurate Company Implementation of reported Actual Heating Degree Days	<u>4,800</u>	Under-recovery
		\$ 66,159	Under-recovery

Findings are described in more detail on following pages.

FINDING #1:

Exception

The billing of the WNA adjustments did not begin the first cycle in November as prescribed by the WNA Adjustment Rider.

Discussion

Customers on the first four (4) billing cycles of November did not receive a WNA adjustment factor on their bills. The Company reported this information to the TRA on its Bill Group summary sheets and also by letter dated January 10, 2001. We were able to verify this fact during our audit of a sample of customer bills for November.

The net result of this failure to bill WNA Adjustments for 4 billing cycles is that customers were **under-charged \$67,667**

Company Response

The Company agrees with this finding. The WNA billing did not activate in November because of an oversight in communication.

Recommendation

The greatest portion of the findings was the result of not calculating the WNA Adjustment beginning with bill cycle 1 November. We recommend the Company address its internal control of the WNA Rider to ensure that the WNA begins at the appropriate time.

FINDING #2:

Exception

The Company used inaccurate actual heating degree days in the calculation of the WNA factor.

Discussion

The audit indicates that on seven (7) days out of 212 days of weather observations in the WNA period, the Company used inaccurate actual heating degree days in the calculation of the WNA factor.

A summary of the days involved follows:

Date	Daily Degree Days Used By Company	Daily Degree Days As Published by NOAA	Degree Day Difference
10/6/2000	0	1	+1
10/30/2000	0	1	+1
11/25/2000	14	15	+1
12/27/2000	34	30	-4
01/27/2001	26	27	+1
02/17/2001	24	25	+1
03/31/2001	9	10	+1

The net result of the Company's use of this inaccurate information is that the customers were **over-charged \$6,308**.

Company Response

The Company agrees with this finding. Chattanooga heating degree day data is secured from the NOAA web site and entered in to the Company's billing systems. A one degree difference occurred on six days and this is due to rounding, since often times the average of the high and low temperatures will not be a whole number. On 12/27/2000, the difference was 4 degrees which the Company attributes to human error.

FINDING #3:

Exception

The actual heating degree days for some bill groups did not agree with the actual heating degree days filed by the Company.

Discussion

The Company supplies the TRA with its calculation of the WNA factors for each bill group (cycle) during the heating season. Part of that calculation is the total actual heating degree days in that cycle. In 65 out of 132 billing cycles for the heating season, the Company did not use the actual degree days that calculated from the daily heating degree days reported on the EOM (End of Month) schedule each month. That led to larger differences for those cycles than would have occurred had the correct Company calculated actual degree days been used.

After looking at actual customers' bills for these cycles, we determined that the Company did bill the customers based on factors that did not agree with the Company's own data.

The net result of these actual degree day differences was that the customers were **under-charged \$4,800**.

Company Response

We discovered a total of 12 differences in the actual degree days in CIS compared with the EOM reports and NOAA. These differences are listed below:

Date	CIS Actual Degree Days	NOAA
10/6/2000	0	1
10/30/2000	0	1
11/9/2000	0	3
11/14/2000	16	21
11/25/2000	14	15
12/27/2000	34	30
1/27/2001	26	27
2/17/2001	24	25
2/20/2001	18	14
3/31/2001	9	10
4/4/2001	11	4
4/20/2001	13	6

These differences are the cause of the discrepancy in bill cycle degree days actually used versus the reported degree days on the EOM reports.

Recommendation

While the net dollar value of this finding is not material, the number of billing cycles affected by Company error **is material** and has the potential of generating material dollar findings. We recommend that the Company increase internal control over this area, to be sure that the actual degree days that the Company obtains from NOAA and reports to the TRA is in fact the actual degree days that are entered into the Company's computer systems.

ATTACHMENT 1

CHATTANOOGA GAS COMPANY
GAS TARIFF
TRA NO. 1

FIRST REVISED SHEET NO. 49

WEATHER NORMALIZATION ADJUSTMENT

(WNA) RIDER

PROVISION FOR ADJUSTMENT

The base rate per CCF/therm (100,000 Btu) for gas service set forth in any rate schedules utilized by the Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment."

DEFINITIONS

For Purpose of this Rider:

"Authority" means the Tennessee Regulatory Authority.

"Relevant Rate Order" means the final order of the Authority in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Authority Specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

COMPUTATION OF WEATHER NORMALIZATION ADJUSTMENT

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per CCF/therm by the following formula:

$$WNA_i = R_i \frac{(HSF_i (NDD - ADD))}{(BL_i + (HSF_i \times ADD))}$$

Where

- i = any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification
- WNA_i = Weather Normalization Adjustment Factor for the i^{th} Rate Schedule or classification expressed in cents per CCF/therm
- R_i = weighted average base rate (base rate less any embedded gas cost) of temperature sensitive sales for the i^{th} schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- HSF_i = heat sensitive factor for the i^{th} schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- NDD = normal billing cycle heating degree days utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- ADD = actual billing cycle heating degree days
- BL_i = base load sales for the i^{th} schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

FILING WITH AUTHORITY

The Company will file as directed by the Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

**WEATHER NORMALIZATION ADJUSTMENT
(WNA) RIDER COMPONENTS**

<u>RATE SCHEDULE</u>	<u>WEIGHTED BASE RATE (\$CCF)</u>	<u>HEAT SENSITIVE FACTOR - HSF (CCF)</u>	<u>BASE LOAD - BL (CCF)</u>
<u>(R-1) RESIDENTIAL GENERAL SERVICE</u>			
Winter (November - April)	.203346	.208678	17.224
<u>(R-4) MULTI-FAMILY HOUSING SERVICE</u>			
Winter (November - April)	.208600	.119141	25.044
<u>(C-1) COMMERCIAL AND INDUSTRIAL GENERAL SERVICE</u>			
Winter (November - April)	.257377	.987685	221.606